



**PUBLICATION 1345N**

# **Nebraska Handbook for Electronic Filers of Individual Income Tax Returns**

**TAX YEAR 2011**

**BE SURE TO GET OTHER ELECTRONIC RETURN ORIGINATOR (ERO) MATERIALS FROM THE DEPARTMENT'S WEBSITE.** Also find up-to-date information about the Nebraska e-file program, or download additional copies of this booklet, as well as other forms, files, and publications that will assist you with e-filing Nebraska returns for your clients. Visit [www.revenue.ne.gov/electron/preparer.htm](http://www.revenue.ne.gov/electron/preparer.htm).

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# ***Nebraska E-file*** **ELECTRONIC FILING CALENDAR**

**For Tax Period January 1, 2011, through December 31, 2011**

Begin Software Developer Testing ..... (Same as Internal Revenue Service)

- Nebraska software developers must be approved by the Internal Revenue Service (IRS) before final approval with the state.
- Transmitter Trading Partners must be accepted by the IRS prior to accessing the IRS Acknowledgment System.
- **EROs are not required to file an application or perform state acceptance testing.**

Begin Transmitting Legacy-EMS Returns to IRS/Nebraska Department of Revenue.. January 13, 2012

Begin Transmitting MeF Returns to IRS/Nebraska Department of Revenue ..... January 17, 2012

Last Date for Timely Filed Returns ..... April 17, 2012

Last Retransmission of Rejected Timely Filed Returns ..... (To Be Determined by IRS)

Last Date for Extended Filed Returns..... October 15, 2012

Last Retransmission of Rejected Extended Filed Returns ..... (To Be Determined by IRS)

*NOTE: These dates may be subject to change at any time.*

# **Chapter 1**

## **OVERVIEW**

Nebraska offers three e-filing options. The Federal/State Legacy e-file program will begin accepting electronically transmitted returns on the IRS start date, which is currently scheduled for January 13, 2012. The Federal/State Modernized e-File (MeF) program start date will be January 17, 2012. The Department's NebFile program will begin accepting electronically transmitted, tax year 2011 returns approximately January 4, 2012. (Paid tax preparers may also use NebFile to file their client's returns.)

### **“Legacy” Income Tax Electronic Filing**

The IRS has indicated that this year will be the last year that the “Legacy” e-file program will be supported. The current Federal/State Legacy e-file system has been in operation for over 20 years. The Department began participating in this program in 1995. The IRS is replacing the Legacy e-file program with the new MeF program. This will be year three of their three year conversion from Legacy e-file to MeF.

### **MeF**

MeF is a web-based system that provides for Federal/State electronic filing of individual income tax returns through the Internet using Extensible Markup Language (XML) formats. XML is an industry standard for storing and transmitting data. The transition from the Legacy record formats to XML and the new MeF platform provides several benefits to e-file. These include:

- Support for e-filing of a variety of Nebraska income tax forms that previously could not be e-filed. The Legacy e-file program required some Nebraska forms to be mailed to the Department after filing. MeF will accept these forms as part of the e-file record.
- More detailed error condition reporting through the Acknowledgment process. MeF allows more precise definitions of errors that the Department detects upon receipt of a transmitted return. These will be communicated through the use of codes provided in Acknowledgments and can take the form of either Rejects or Alerts.
- Faster turnaround from transmission to acknowledgment. MeF operates in real-time as opposed to the batch file processing method. When you transmit a return using MeF, you will receive the Nebraska Acknowledgment much faster than in the Legacy program.
- Greater standardization between the IRS and states, and among states, resulting from the adoption of XML formats. XML is widely accepted and has been further standardized through the efforts of the IRS, the states (through the Federation of Tax Administrators), and the software industry.
- Transmissions and acknowledgments are available 24/7. MeF allows transmitters to transmit returns year round, except for a short period at the end of the calendar year.

**The IRS has indicated that this year they will take steps to require e-file software companies to transmit the majority of returns through MeF.**

# Changes for Tax Year 2011

- **2011 Legislative Changes**
  - **MeF to Support Delinquent Returns in 2012.** Another benefit of MeF is that this program will support e-file for delinquent returns. Beginning this year (processing year 2012), the Department will accept both tax year 2010 and 2011 individual income tax returns in MeF. Beginning next year (processing year 2013), MeF will accept tax years 2010, 2011, and 2012, as well as current tax year amended returns. In following years, the ability to file current year and two delinquent year returns will be supported.
  - **Angel Investment Tax Credit.** A new line (Line 34) has been added to Form 1040N for a new refundable credit, Angel Investment Tax Credit. Beginning with tax year 2011, individuals, trusts, or pass-through entities are eligible for a refundable income tax credit equal to 35% or 40% of an investment in an eligible Nebraska business. The amount of the credit depends on the location of the business receiving the investment - 40% of the investment if the qualified business is located in a distressed area or 35% of the investment in all other areas of the state. An individual, trust, or pass-through entity and an eligible business must both be certified by the Nebraska Department of Economic Development for an investment to be eligible for the tax credit. The Department of Economic Development will issue a certificate to each entity that is eligible. The amount of the credit is limited to \$350,000 for married filing joint and \$300,000 for all other filing statuses.
  - **1040N Line 15 Tax Calculation.** Beginning with tax year 2011, all e-file software companies will be required to use the Tax Calculation Schedule to calculate Nebraska tax. Software companies cannot use the bracket amounts shown on the Nebraska tax table to calculate tax. This change ensures that taxpayers who e-file are consistently given the most accurate tax calculations available, regardless of what software they use. This requirement applies to both legacy and MeF software products.
  - **Nebraska Schedule I Line Number Changes.** Former Schedule I lines 56 (Bonus Depreciation Subtraction) and 57 (Enhanced Section 179 Subtraction) have been eliminated for tax year 2011.
  - **Schedule K-1N.** MeF will support replacement of Form 14N with the new Schedule K-1N for filers who file tax year 2011 returns. Form 14N will still be supported for delinquent filers who are filing a tax year 2010 return.
  - **Nebraska Standard Deduction changes:** Tax year 2011 'base' values are:
    - \$5,800 for single (File Status 1)
    - \$11,600 for married, filing jointly (File Status 2) and qualified widow(er) (File Status 5)
    - \$5,800 for married, filing separately (File Status 3)
    - \$8,500 for head of household (File Status 4)
- The tax year 2011 additional standard deduction for elderly/blind is:
- \$1,150 for married, filing jointly or separately and qualified widow(er); and
  - \$1,450 for single and head of household.
- **Personal Exemption Credit:** The Nebraska Personal Exemption Credit (Form 1040N, line 19) for tax year 2011 is increased to \$120.
  - **Tax Preparer Mandate Changes:** Beginning January 1, 2012, any paid tax preparer who prepares and files more than **25** individual income tax returns annually must e-file the returns. **A \$100 penalty per return will apply** to tax preparers who do not e-file returns as required. Information about the tax preparer mandate is available on the Department's website.
    - [Preparer Mandate Q&A](#)
    - Mandate statute is [Neb. Rev. Stat. § 77-1784](#).

## Who is Eligible to E-file for Tax Year 2011?

**Be aware that some software may have limitations or exclusions that are beyond the control of the Department. Check with your software provider if you have questions about exclusions.**

Nebraska makes it possible for all lines on Form 1040N and associated schedules to be e-filed; however, not all software supports all Nebraska forms and all form lines. **If a return needs to have a particular form or form line that is not supported by that software, hardcopy documentation will need to be mailed in to substantiate these amounts. Your software should alert you if a return is filed that requires a hardcopy form or schedule to be mailed to the Department. See Chapter 3, Contents of the E-Return for mailing instructions.** Ask your software provider to confirm whether or not it supports all lines in the Nebraska return. (NOTE: Currently, the Department does not support fiscal year returns and amended returns. In future years, these types of returns will be supported.)

## Publications and Other E-file Information

In addition to this publication, you should also be familiar with the [IRS Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns](#). It identifies the procedures and requirements for this program as specified by the IRS.

This document, *Publication 1345N Nebraska Handbook for Electronic Filers of Individual Income Tax Returns*, provides information specific to the Department. This handbook highlights the special features for Nebraska, and should be used in conjunction with *IRS Publication 1345*. All rules, regulations, and requirements governing tax preparers, transmitters, and originators of returns put forth by the IRS are in effect for the Department. The Department recommends that all participants study *IRS Publication 1345* prior to reading the *Publication 1345N, Nebraska Handbook*. The detailed instructions on hardware, transmission procedures, policies, etc. provided by the IRS also apply to the Nebraska program.

Visit [www.revenue.ne.gov](http://www.revenue.ne.gov) for the latest news about the Department's electronic commerce programs and to download state forms, tables, and publications.



Information on the Department's website may change periodically. Sign up for a [FREE subscription service](#) to get updates on your topics of interest.

## Preventing Errors on the State Return

Although the error rate on e-filed returns is very low, occasionally an error does occur. **Any error requiring human intervention will delay the processing of your client's return. Serious errors may cause a return to be rejected.** Here are some tips to avoid and minimize these problems:

- Ensure that ERO and paid tax preparer information such as PTIN, firm EIN, name, and telephone number have been correctly entered on the state return.
- Know whether your software supports a particular form or form line before preparing a return that requires it. Remember to attach and mail any hardcopy forms or documents not e-filed with your return but needed to complete the return to Form 8453N. Mail them as soon as you receive a state acknowledgment indicating the state return has been accepted. This information must be received by the Department within 15 working days from the date of the state acknowledgment; otherwise the credit in question will be disallowed.

- Always include the seven-digit High School District Code for resident returns and part-year resident returns when the taxpayer resides in the state as of December 31, 2011. Errors or omission of the High School District Code will result in a Department letter to the taxpayer asking for complete information.
- Pay special attention when preparing schedules and worksheets. These account for most of the errors found in state returns;
- Software developers are notified when errors are discovered in their products, but they do not always issue fixes immediately. Know how your developer issues updates and keep your software version current. It is important to always use the most current updates to your software for any “fixes” for these types of errors;
- Active duty military service members who are Nebraska residents must file as Nebraska residents. If Schedule III is completed as a nonresident return, it will be disallowed; and
- A number of supporting forms and worksheets are used with the Nebraska return. Verify that all worksheets have been completed before submitting the return.

**Report all problems with your software to your software provider. As users of this software, you are in the best position to recognize software-generated errors.** The Department will work with your software provider to correct these errors; however, it is your responsibility to provide error-free returns. **Please remind your clients not to mail printed copies of their e-filed tax return to the Department unless directed to do so.**

# **Chapter 2**

# **APPLICATION AND PARTICIPATION**

## **Fed/State and MeF Tax Preparer Participation**

E-filing for Nebraska individual income tax returns is available to all tax preparers who have been accepted by the IRS for participation in the Federal/State E-file program. For Nebraska purposes, there are three basic classifications of trading partners in this program: EROs, transmitters, and Software Developers.

- An ERO enters tax returns on a computer using software that has been approved by both the IRS and the Department. These returns are intended for electronic transmission to the IRS. A company may be both an ERO and a transmitter, or an ERO may have an arrangement with a third-party transmitter to use their communications services. **Nebraska does not license EROs. Acceptance by the IRS is automatic acceptance for Nebraska.**
- Transmitters directly transmit electronic returns to the IRS Service Center using IRS approved software, and retrieve both federal and state acknowledgments. **Nebraska does not license or require transmitters to test with the Department.**
- Software Developers create and market software that formats the electronic returns and allows the data to be transmitted via computers. All Software Developers in the Federal/State E-file program must complete rigorous testing with the IRS. Software Developers who create software for Nebraska e-file returns must also complete testing and be approved by the state.

## **EROs and Paid Tax Preparers**

All EROs accepted in the federal program are assigned an Electronic Filing Identification Number (EFIN) by the IRS. Your EFIN is also used by the Department to identify you. When returns are submitted, paid tax preparer information must also be provided, including the tax preparer's PTIN and the firm's EIN.

EROs are required to use software approved by the Department. Approved e-file software products are listed on the [Department's Tax Preparer Page](#).

- EROs must confirm that they, their software vendor, or their third-party transmitter/trading partner have the capability of transmitting Nebraska filing data together with the federal data to the appropriate IRS processing center.
- EROs must confirm that they, their software vendor, or their third-party transmitter/trading partner have the capability to download and provide both federal and state acknowledgments.

The ERO is responsible for verification that the Nebraska return has been properly prepared, accepted by the IRS, and accepted by the Department.



## Transmitters

- Since the Federal/State E-file program is essentially an IRS program, transmitters must follow all IRS-required deadlines, transmitting procedures, communication requirements, and technical specifications.
- Transmitters who transmit Nebraska returns for an ERO are required to supply the ERO with the Nebraska acknowledgment in a timely manner. **Because the state acknowledgment could contain a state reject code, it is critical that the transmitter deliver the acknowledgement in a timely manner.**
- All transmitter trading partners are required to test with the IRS at the appropriate processing site. No testing is required for the state.

## ***Chapter 3***

# **MeF IMPLEMENTATION**

## **MeF and National Standards**

The Department has actively participated in developing national standards for the MeF program. As a member of the Federation of Tax Administrators (FTA), the Department has contributed to the development of national standards used with this program. The FTA has been involved in setting national standards since 1989 for other electronic programs such as EFT payments, EDI (electronic data interchange), 2-D bar-coding, and now Federal/State MeF. The organization that hosts standards meetings is a part of the American National Standards Association, through its Accredited Standards Committee X12 (X12 denotes business data exchange). Its Government Subcommittee's workgroup is called the Tax Implementation Group for E-Commerce Requirements Standardization (TIGERS). TIGERS was formed in October 1994 by the FTA, the states, the IRS, and business and service provider representatives. TIGERS seeks to ensure success by providing a forum for government and industry members to regularly meet together and agree upon "conventions" for the national-standard formatting of electronic data. This standardization effort makes it easier and less expensive for service providers such as software companies to provide products to their customers.

## **MeF Phase-in by the IRS**

The IRS, in conjunction with participating states has rolled out 1040 MeF using a three-phase strategy over three years.

- Phase one of 1040 MeF began in February 2010, and included these federal forms and schedules:
  - Form 1040
  - Schedule A
  - Schedule B
  - Schedule C
  - Schedule D
  - Schedule E
  - Schedule EIC
  - Schedule M (new)
  - Schedule R
  - Schedule SE
  - Form 1099-R
  - Form 2106
  - Form 2210
  - Form 2441
  - Form 4562
  - Form 4868
  - Form 8283
  - Form 8812
  - Form 8829
  - Form 8863
  - Form 8880
  - Form 8888
  - Form W-2

- Phase two of 1040 MeF began in January 2011 and included the same forms as the first release. The IRS used year two to make infrastructure improvements.
- Phase three of 1040 MeF begins in January 2012 and will include the remaining federal forms filed under the current individual e-file program.

The Department intends to support all forms that can be filed as part of a Nebraska MeF electronic return in the first year of this phased-in approach. This does not mean that all software will support all Nebraska forms. The Nebraska MeF return consists of the Nebraska Form 1040N, and supporting IRS electronic forms, schedules, and documents. Nebraska tax year 2011 tax forms that can be filed through the Nebraska MeF program are shown in the following table.

<b>Form Name</b>	<b>Form Title</b>
Form 1040N	Nebraska Individual Income Tax Return (base form)
Schedule I	Nebraska Adjustments to Income
Schedule II	Credit for Tax Paid to Another State
Schedule III	Computation of Nebraska Tax for Nonresidents and Partial-Year Residents
Form 1099BFC	Certificate of Nebraska Tax Credit for Beginning Farmer Credit
Form 1099NTC	Statement of Nebraska Tax Credit for Community Development Assistance Act Contribution
Form 1310N	Statement of Person Claiming Refund Due a Deceased Taxpayer
Form 2210N	Individual Underpayment of Estimated Tax
Form 2441N	Nebraska Child and Dependent Care Expenses
Form 3800N	Nebraska Incentives Credit Computation for Tax Years After 2005
Form 4797N	Special Capital Gains/Extraordinary Dividend Election and Computation
Nebraska Advantage Act Application	Nebraska Advantage Microenterprise Tax Credit Act Application Part 3
Form CDN	Nebraska Community Development Assistance Act Credit Computation
Schedule K-1N	Income, Deductions and Modifications to Income for Shareholders, Partners and Beneficiaries
Form NFC	Statement of Nebraska Financial Institution Tax Credit
Form NOL	Nebraska Net Operating Loss Worksheet
Form RRB-1099	Payments by the Railroad Retirement Board
Form RRB-1099R	Annuities or Pensions paid by the Railroad Retirement Board
Form 3800N Worksheet RD	Research Tax Credit Worksheet for Tax Year 2009 and After
Form 3800N Worksheet E	Nebraska Renewable Energy Tax Credit Worksheet

**As with Legacy e-file, be aware that some software products may have limitations and exclusions that are beyond the control of the Department. Be sure to check with your software provider if you have questions about which Nebraska forms they support.**

## ***Chapter 4***

# **CONTENTS OF THE E-RETURN**

## **The Electronic Return**

**TRANSMITTED AS PART OF THE STATE ELECTRONIC RETURN.** The Nebraska portion of an electronic return will consist of state return data transmitted electronically and supporting IRS electronic forms, schedules, and documents. The Nebraska electronic return consists of:

- Form 1040N - Nebraska Individual Income Tax Return and all Nebraska e-file eligible forms, schedules, and worksheets; and
- The attached federal return, including all federal forms and schedules, and all Forms W-2 and 1099, and Schedules K-1N showing Nebraska withholding.

## **Contents of the MeF Electronic Return**

As with Legacy e-file, the Nebraska MeF return consists of Form 1040N and all required e-file eligible forms that should be attached to the return. The Nebraska MeF return also contains a copy of the taxpayer's federal return. Nebraska requires that all of the federal filing be included with a state filing, including all withholding documents and other XML data in the Nebraska submission package. This data is supplied directly to Nebraska by the taxpayer and is not disclosed by the IRS.

Nebraska submissions may be transmitted independently of federal submissions. These Nebraska submissions may either be stand-alone (state only), or they may be linked to a federal submission that was previously transmitted. A Nebraska submission is linked to a federal submission, whether or not they are part of the same transmission, by inserting the Submission ID of the federal return in the submission manifest of the Nebraska submission.

## **Portions of the Non-Electronic Return**

**RETAINED BY THE ERO.** Non-electronic portions of the Nebraska return that must be retained by the ERO for a period of three years from the due date and include the following:

- State copies of all withholding documentation (except Schedule K-1N and Form 1099-MISC which must be either e-filed through the MeF program or mailed); and
- All federal forms and schedules and other states' returns needed to substantiate the Nebraska return. These consist of any federal forms or other states' forms normally attached to a paper Nebraska return, including Forms 6251, 4972, and 5329 when used to substantiate Form 1040N, Line 16; and Form 2441 when the state Form 2441N is not used. Please refer to the Nebraska Tax Booklet instructions when determining which forms must be retained. These consist of any (non-electronic) federal or other state forms normally attached to a paper Nebraska return.

The Department may require that the ERO provide copies or originals of this documentation upon request. If an ERO ceases business operations, they still have the obligation to retain and make available the records for three years or provide all records to the Department. If the business is sold, the records must be passed on and retained by the new owners.

**EROs must retain the original documents unless they are exempted when the return is prepared at a military base, VITA, or TCE site, or if the ERO is filing his or her own return.**

If either of the two conditions above is true, the ERO has the option of either providing these documents to the taxpayer, or mailing them to the Department attached to Form 8453N. **NOTE: If the site is a for-profit business also submitting returns for the general public, the three-year retention rule remains in force.**

**MAILED TO THE NEBRASKA DEPARTMENT OF REVENUE.** Various restrictions may exist that could prevent the entire Nebraska return from being e-filed. For example, the Legacy e-file program does not support all Nebraska forms and form lines. Prior to tax year 2009, several lines on the Nebraska Form 1040N were restricted from Legacy e-file because the documents and forms needed to substantiate these Form 1040N lines were not supported. As previously mentioned, not all software supports all forms and schedules the Department offers. It is the Department's policy to allow for all (calendar year) tax year 2011 original returns and tax year 2010 delinquent returns to be e-filed. To allow this, the Department utilizes the same methodology as the IRS by allowing certain documents to be mailed while e-filing the "base" return. These returns can now be e-filed.

Needed documents must be mailed to the Department before the return will be processed.

In Legacy e-file, these documents are not supported, but can be mailed:

- Form 1099-MISC (only if Nebraska withholding is shown);
- Schedule K-1N, Income, Deductions and Modifications to Income for Shareholders, Partners and Beneficiaries (do not send Forms W-2);
- Form 1310N, Nebraska Refund for Deceased Taxpayers;
  - If filing as a personal representative, attach proof of appointment.
  - All other persons, attach proof of death.
- Form CDN, Nebraska Community Development Assistance Act Credit Computation and Form 1099NTC;
- Nebraska Tax Incentive Credit Documentation;
- Form NFC, Statement of Nebraska Financial Institution Tax Credit;
- Form 1099 BFC, Certificate for Beginning Farmer Credit; and
- Form 4797N, Special Capital Gains Election and Computation.

In MeF, most tax forms are supported by the Department in e-file, but because it is a new program, not all software products support these same forms.

PDFs of all forms are on the Department's [website](#).

**Required forms and documents needed to substantiate the Nebraska return that cannot be e-filed must be mailed to the Department attached to Nebraska Form 8453N.** The Form 8453N with attachments should be mailed as soon as the Nebraska acknowledgment has been received indicating the return was accepted, and must be mailed within 15 working days of the date the state acknowledgment was posted at the IRS.

The Nebraska Form 8453N contains checkboxes to identify which forms or documents are attached, similar to the Federal Form 8453. Form 8453N does not need to be signed by the taxpayer. These documents and forms will be given priority processing, and will usually be processed much faster than if the entire return had been submitted on paper.

**If a return requires forms or documents to be mailed:**

1. Complete the taxpayer SSN, name, and address. Enter the SSNs, names, and address information as they appear in the electronic Form 1040N. The Department's official mailing label is not required;
2. If completing a Legacy return, include the IRS Declaration Control Number (DCN). Enter the DCN in the appropriate boxes at the top left-hand portion of Form 8453N; and

3. Attach required forms and documents to Form 8453N, check their corresponding boxes, and attach all state copies of Forms W-2, W-2G, 1099-MISC, and 1099-R; and Schedules K-1N. Mail Form 8453N with attachments to:

Nebraska Department of Revenue  
PO Box 98911  
Lincoln, NE 68509-8911

If there are no required forms to be mailed, Form 8453N is not required. In this case, retain the state copies of Forms W-2, W-2G, 1099-MISC, and 1099-R; Schedules K-1N; and all other related state documentation for a period of three years from the due date.

## IRS and State Data Consistency Validations

Both the Department and the IRS perform “consistency checks” between corresponding data fields in federal and state submissions. Consistency checks (or data edits) are exact comparisons between a value on a Nebraska form to a single value on a federal form when these should match, and requires no math. An exact match is required (no tolerances). In the Legacy system, the IRS does these consistency checks, and if an error is found, both the federal and state returns are rejected by the IRS. In MeF, if a Nebraska return is found to be inconsistent with the federal return based on these edits, a full Nebraska acknowledgment containing a Business Rule “Reject” Code will be returned to the transmitter. Fields that are tested for federal consistency include:

- Form 1040N, line 4 - Number of Federal Exemptions compared to Federal Form 1040 or 1040A, line 6d.
  - No comparison is done if it is a Federal Form 1040EZ.
- Form 1040N, line 5 - Adjusted Gross Income compared to Federal Form 1040, line 37; Federal Form 1040A, line 21; or Federal Form 1040EZ, line 4.
- Form 1040N, line 7 - Total Itemized Deductions compared to Federal Schedule A, line 28.
- Form 1040N, line 8 - State and Local Income Taxes compared to Federal Schedule A, line 5.
  - Income tax amount only, no sales tax; from line 5b.
- Form 1040N, line 98 - Federal EIC Claimed compared to Federal Form 1040, line 64a; Federal Form 1040A, line 38a; or Federal Form 1040EZ, line 8a.

## Determining Whether a Return Goes MeF or Legacy

The decision to transmit tax year 2011 Nebraska returns through the MeF program is largely controlled by your software company and, to a lesser extent, the IRS. Factors that impact this decision include:

1. As previously mentioned, this program has been phased in by the IRS over a three-year period. During this time frame, the IRS and states will receive and process e-filed returns originated by both the Legacy E-file system and MeF. **Nebraska will not require software companies to participate in the MeF program during this phase-in, so participation will vary between companies.** Please contact your software provider to determine if it will be supporting the MeF option for Nebraska, and what limitations its software has when creating the Nebraska return.
2. This year, the IRS will be applying a Volume Management Strategy to limit the number of Legacy e-filed returns. This is an effort by the IRS to ensure software companies migrate to the MeF platform. It will limit transmitters to a specific percentage of all e-filed returns that can be sent to the IRS through the Legacy system.
3. While all federal and state forms will be supported for tax year 2011 in MeF, not all software products will support all forms. This means that if a form required as part of a federal or state tax return is not supported by the software, the return will have to be transmitted through the Legacy E-file system. Further, if the return includes more than one state return, and the other state return requires a form not supported in MeF by that state, the entire transmission including the federal return, the Nebraska return, and the other state's return will have to be sent through Legacy e-file.

In most cases, taxpayers will not see many differences in their e-file experience between Legacy and MeF. Still, some differences will exist. Return processing and acknowledgment turn-around will be much faster under MeF, and that means that Customer A filing via MeF may get a refund faster than Customer B using Legacy when they filed on the same day. Also, because more, and in some cases different, information is collected, a MeF return may get held up in processing whereas the same Legacy return would not, and vice versa. The Department will make every effort to make this conversion as seamless as possible for EROs and taxpayers.

# **Chapter 5**

## **ACKNOWLEDGMENTS**

The Nebraska acknowledgment informs the transmitter that the state has retrieved a particular Nebraska return from the IRS, and also indicates if errors exist on the return causing it to be rejected by the state. The IRS posts Nebraska acknowledgments in the federal acknowledgment system. **Do not assume that a federal acknowledgment by itself is a guarantee of receipt of the state return by the Department.** It is very important that you get your state acknowledgments to be certain your state returns were received.

### **Legacy E-file Acknowledgments and Reject Codes**

The state acknowledgments picked up will be for different transmission dates than the federal acknowledgments. Your Nebraska acknowledgments are normally posted on the second state business day following IRS acceptance of the federal return. **If the IRS acceptance date is on a weekend or holiday, the Nebraska acknowledgment will be posted on the following business day.** See the document named [Nebraska Acknowledgment Procedures](#) on the Software Developer page of the Department's website for an explanation of the schedule the Department uses for Legacy acknowledgments.

The state bundles acknowledgments by transmitter ETIN, which are imbedded in their corresponding original state returns in the Return Sequence Number (RSN).

Nebraska supports four Acceptance Codes. These are: "A" = Accepted; "R" = Rejected; "D" = Duplicate; and "E" = Exception Return.

- The **"A" Acceptance Code** indicates that the Department has received the return and it has passed the e-file program's initial edits. It does not indicate that the return has been completely processed. After e-filed returns have been initially edited and the "A" Acceptance acknowledgment is sent, returns are further edited in the state's mainframe processing systems for other error conditions that could delay processing of the return. An Acceptance acknowledgment does not ensure that the refund will be paid as requested.
- The **"R" Acceptance Code** indicates that the entire return has been rejected. The return must be corrected and re-transmitted as a State Only return, or filed on paper. Each Rejection acknowledgment will include one or more records identifying error conditions. If a return is rejected by the IRS and later re-transmitted, any corrections made to the federal return must be carried over into the state return.
- The **"D" Acceptance Code** indicates that the return has been rejected because it is a duplicate SSN and a return is already on file for that taxpayer.
- The **"E" Acceptance Code** indicates that the Department has received a return marked by the IRS as "E" for Exception Return processing, and has passed the e-file program's initial edits. Like the "A" code, it does not indicate that the return has been completely processed, since it will be further edited in mainframe processing and treated in the same manner.

The Nebraska Acknowledgment System has the ability to report up to 96 state Reject Codes for any given return. This should allow the ERO to fix all errors in one attempt when submitting a State Only correction return.



**Reject Codes can be issued with either federal or state acknowledgments. These have separate codes. Nebraska Reject Codes are available for download from the Information for [Tax Preparer's Page](#) on the Department's website.**

- **Reject Codes issued by the IRS in the federal acknowledgment:** These normally point out errors in the federal return; however, certain errors on the state return can cause Reject Codes issued by the IRS. Reject codes issued by the IRS edits and pertaining to state returns are included in *IRS Publication 1345*. If a federal return is rejected due to errors, the accompanying state return will also be rejected. If a state tax return is rejected by the IRS due to errors, the federal return will also be rejected. If the error is one that can be corrected and the record processed, both return records may be re-transmitted to the IRS.
- **Reject Codes issued by the Nebraska Department of Revenue in the state acknowledgment:** The Nebraska e-file system issues state reject codes. If the software used supports this option ("state only"), a state return that has been rejected can be fixed and re-sent to the state. As an ERO, your software should be set up with the ability to diagnose these codes. If not, **a separate document has been posted on the [Tax Preparer's page](#) of the Department's website, listing Nebraska reject codes with an explanation of the error.** Download this document for more information.

## MeF Acknowledgments and Alerts

The IRS will host both federal and state acknowledgments for retrieval by transmitters (single point acknowledgments). Nebraska will create the state acknowledgments, and transmit them to the IRS via web services. The Nebraska acknowledgment will be in two parts:

1. A simple "receipt" will be returned for each return submission to indicate that the submission was received apparently intact, with no communication protocol errors. The receipt will not indicate whether the return is accepted or rejected.
2. The full Nebraska acknowledgment will then indicate whether the return submission is accepted or rejected by the state. A state may choose to accept the return if the XML is valid, or it may choose to fully process the return before creating the acknowledgment. **Like Legacy e-file, returns may also be rejected in MeF. MeF uses Business Rules rather than Reject Codes. Nebraska Business Rules are posted on the Department's website.**

Once a return submission is accepted, any further processing errors will be handled within the Department's processing systems, outside of the e-file process. Acknowledgments will normally be created and transmitted to IRS on the same day as receipt of the return submission. Both receipts and acknowledgments will be in XML format, following schemas provided by IRS.

Another benefit of the MeF program is that it allows the use of "Alerts." Alerts are issues that need to be brought to the attention of the transmitter, ERO, or taxpayer but do not result in the return being rejected. **If you have received a Nebraska acknowledgment indicating the return is accepted but has Alerts, do not resubmit the accepted return as it will result in the subsequent return being rejected as a duplicate.** If the return is rejected and also has an Alert, you must correct the problems that caused the reject and, if adequate time allows, also correct any issues causing Alerts. **Not all Alerts are problems in the return data. In some cases, Alerts are used to provide additional instructions, such as when a form or document must be mailed to the Department.**

## Information in the Full MeF Nebraska Acknowledgment

The following table describes some of the field contents of the Nebraska acknowledgment that may be useful to the ERO. How this information is displayed to the ERO is dependent on the tax preparation software that is used.

Field Name	Description	Sample Value
Submission ID	This is the equivalent of the Declaration Control Number (DCN) used in the Legacy e-file program. It identifies a particular return transmission.	Example: NNNNNN20112570283548 (where NNNNN is the ERO's EFIN).
Government Code	Indicates the taxing authority that received the transmitted return.	Nebraska
Submission Type	Indicates the type of return data that was transmitted.	1040, 1120, etc.
Tax Year	The tax year of the return	2011
Electronic Postmark	The date and time that the return was received by the taxing authority.	2011-09-14T11:23:29-05:00
Acceptance Status	Indicates whether or not the return was accepted.	Accepted, Rejected
Taxpayer ID Number	The SSN or ITIN of the primary taxpayer.	n/a
IRS Received Date	The date the return was received by the IRS MeF front-end processing system.	2011-09-14
Tax Period End Date	The tax period covered by the return.	2011-12-31
Expected Refund	If the return reported a refund amount, this is provided in the acknowledgment for the ERO to confirm against the return.	
Xpath	If the acknowledgment indicates the return was rejected, this gives the transmitter the exact location of the data that caused the reject or alert.	n/a
Error Category	If the acknowledgment indicates the return was rejected, this indicates the type of error it was.	Math Error, Data Mismatch, etc.
Error Message	If the acknowledgment indicates the return was rejected, this describes the error.	Total itemized deductions on the Nebraska return must match Total Itemized Deductions from federal Schedule A.
Rule Number	If the acknowledgment indicates the return was rejected, this indicates a code that the transmitter uses to communicate the error message to the ERO.	F1040N-0038
Severity	If the acknowledgment indicates the return was rejected, this indicates "Rejected." It also can indicate when the return is accepted, but an "Alert" message has been triggered.	Reject, Alert
Data Value	If the acknowledgment indicates the return was rejected, this shows the contents of the data that is in error.	n/a

## State-Only or Unlinked Transmissions

EROs and transmitters typically send both federal and state returns at the same time; however, if the software supports it, it is possible to send state returns without a federal return attached. Be sure to check with your software provider to see if they support this option. **Nebraska accepts State-Only or Unlinked returns, and encourages EROs to take advantage of this option to re-transmit state returns that have been rejected, to transmit state returns for taxpayers paying taxes in more than one state, or in any other situations where a Nebraska return can be filed by itself.** Currently, amended returns must be filed on paper. When a state return is transmitted as State-Only, it contains a copy of a federal record, but it is not intended for the IRS.

## Missing Acknowledgments

Acknowledgments are consistently created for all Nebraska returns downloaded from the IRS, and then transmitted to the IRS for delivery to the transmitter Trading Partner's mailbox. Occasionally, a problem with this process can occur.

- **LEGACY E-FILE - ERO** using a third party transmitter. If you have not been provided a Nebraska acknowledgment within three days of receipt of your federal acknowledgment (when state and federal were transmitted together), **report this to your transmitter Trading Partner.**
- **MeF - ERO** using a third party transmitter. If you have not been provided a Nebraska acknowledgment within one day of receipt of your federal acknowledgment (when state and federal were transmitted together), **report this to your transmitter Trading Partner.**
- **BOTH LEGACY AND MeF - Transmitters** experiencing problems related to IRS connections, should contact your IRS representative. When calling, have your ETIN available.

## Conversions to Paper Returns

**It is best to electronically re-submit a state return that is in error as a State-Only or Unlinked transmission, rather than filing it on paper.** If your software does not support re-transmission of a rejected state return, or if you prefer to file it as a paper return, the procedure for conversion to paper is as follows:

1. Correct the portion of the return that has been indicated by the Reject Code as being in error;
2. Print a copy of the electronic return from your software (or prepare one by hand) and have the taxpayer sign it, and attach all withholding documentation to it;
3. Attach all additional state and federal forms, schedules, and any other documentation needed to substantiate the state return; and
4. Mail it to  
Nebraska Department of Revenue  
c/o Processing Resolution  
PO Box 98903  
Lincoln, NE 68509-8903

**Repeated errors that generate rejects or require conversion of state returns to paper usually indicate a software problem that the ERO must resolve with their software developer.** It is the responsibility of the ERO to originate error-free returns.

## *Chapter 6*

# ELECTRONIC REFUNDS AND PAYMENTS

### General Rules Regarding Electronic Banking

Electronic banking refers to refunds deposited by direct deposit, balance dues withdrawn by electronic funds withdrawal (EFW), or withdrawals made through the Department's e-pay system. Rules and procedures for these electronic banking options and for credit card payments are covered below. The Department will attempt to honor all electronic banking requests, but incorrect or missing banking information is a frequent problem. To assure that the direct deposit or electronic payment works correctly, please follow these rules:

- Include valid information within the Nebraska electronic return including, taxpayer bank Routing Transit Number, Account Number, Type of Account, (and Debit Date and Debit Amount if EFW is used). Confirm this with the taxpayer.
- Do not change or close bank accounts between the time a taxpayer files their tax return and the date their electronic banking request is processed. Invalid or missing direct deposit or EFW information will cause the request to be cancelled.
- Before authorizing a direct deposit or EFW, the ERO should confirm that the taxpayer's financial institution is able to process ACH (Automated Clearing House) transactions.
- The Department will not process banking requests when the Form 1040N International ACH Transaction (IAT) checkbox is checked. The ERO is required to ask the taxpayer if the banking institution that has been designated is located outside of the United States. Refunds that are requested to be paid by direct deposit and whose ultimate destination is to a bank outside of the U.S. will be converted to a paper check and mailed to the address on record. EFWs that request a debit from a bank located outside of the U.S. will be cancelled, and the taxpayer will be notified that they must remit their tax through another method.

EROs must stress to their clients the importance of supplying correct, up-to-date banking information. Information submitted in the state return cannot be changed once a return has been received by the Department.

The Nebraska acknowledgment only indicates receipt of the return at the Nebraska Department of Revenue. It does not indicate proof that a refund check will be issued, a direct deposit or EFW will be honored, or the expected refund amount will be the actual refund amount. The Nebraska acknowledgment **does** indicate whether a direct deposit, EFW, or a refund check **was requested** on the state electronic return.

For returns submitted through MeF, the taxpayer will be able to include payment authorization for a Nebraska balance due return, or deposit information for a Nebraska refund return within the XML state submission. The IRS treats this information solely as pass-through data to the state and does not process state financial data in any way.

## Refund Options

Taxpayers can expect to receive their refund check within approximately seven to 21 days from receipt of the acknowledgment **if the tax return is e-filed without errors and does not require forms or documents to be mailed**. Taxpayers using the direct deposit option on an electronic return can expect to have their refund deposited into their bank account within approximately seven to ten days from the date of the state acknowledgment **if the tax return is e-filed without errors and does not require forms or documents to be mailed**. Conditions may exist when processing a refund return that requires the Department to hold and review the return to ensure its accuracy and validity. This may result in a delay in issuing the refund.

Taxpayers may elect to have their tax year 2011 refund credited in one of the following ways:

- Direct deposited electronically into their financial institution account;
- Applied as an estimated payment to next year's tax liability;
- Have all or a portion of the overpayment donated to the Wildlife Conservation Fund or Nebraska Campaign Finance Limitation Cash Fund; or
- Sent as a paper refund check.

## Direct Deposit Instructions

State refunds by direct deposit are electronically transferred to **a single** financial institution account as indicated on the e-filed state record. The financial institution accounts into which the Nebraska refund and the IRS refund are deposited may be different. Therefore, the state and federal Routing Transit Numbers and Deposit Account Numbers could be different. (IRS Publication 1345 sets forth detailed eligibility requirements, responsibilities, and instructions governing trading partners who offer taxpayers the option of direct deposit.)

The Department may determine that certain conditions require conversion of a direct deposit to a paper check.

The Department neither supports nor prohibits *Refund Anticipation Loans* (RALs). The State of Nebraska is not liable for any loss suffered by any party as a result of the Department's denial of all or a portion of a refund claim request.

## Balance Due Options

**If the taxpayer has a balance due return, they may elect to remit their tax in one of the following ways:**

- Initiate a payment on the Department's website using the e-pay system. There are many benefits to using this system to arrange electronic payments. Check the Department's website for details;
- Request through the electronic return that funds be debited electronically from their financial institution account (EFW);
- Initiate a payment by credit card through Official Payments; or
- Mail in a check or money order attached to a Nebraska 1040N-V Payment Voucher.

## E-pay System Instructions for Final and Estimated Payments

The Department encourages you to use the e-pay system to remit your client's tax payments. While payments can be made using the EFW option (which requires you to provide the taxpayer's banking information inside of the electronic return), the e-pay system offers greater flexibility by providing a means to make multiple payments from multiple accounts, and provides a confirmation that the payment instructions were received. It also allows you to schedule estimated payments for your clients. Here are some basic instructions for using e-pay:

- You must provide a valid email address to use the e-pay system. The Confirmation Number will be emailed to this address after completion of the payment.
- You can make a payment at any time; however, a payment must be initiated prior to 5:00 p.m. Central Standard Time on the due date to ensure it is timely (a Scheduled Payment Date of the next business day is considered timely).
- Contact information is needed to match the payment to the tax return (professional tax preparers may substitute their email address for the taxpayer's email address).
- On the Verify Payment page, review and make corrections if necessary. When finished, click on the box accepting the "Terms and Conditions", and then click on "Confirm."
- Once the payment details have been entered, the final page is the Payment Confirmation page. Although the e-pay system will send you (or your client) an email confirmation, it is always best to either print this page or record the Confirmation Number shown. This is the receipt of payment. **If you do not receive a Confirmation Number on the final page, the payment has not been completed.**
- When making estimated payments, first time users must first click on "Register" and then complete the registration by entering the SSN, password, and other contact information. Be sure to use the primary SSN you will report on the Nebraska Individual Income Tax return. The system provides a page to enter the payment amounts, and scheduled payment dates. Each payment must be scheduled separately; however, users only have to register once.

## Electronic Funds Withdrawal Instructions

Procedures and rules for EFW include:

- For Nebraska returns, EFW is available only for filers through the IRS Federal/State E-file Program.
- If any EFW information on the return is missing or inaccurate, the request will be automatically cancelled.
- The date you want the payment withdrawn from the account (Debit Date) can be any date from the date the return is filed, to **April 17, 2012**. A Debit Date specified for April 15, 2012 will be considered timely provided the return is filed on or before **April 17, 2012**. Penalty and interest will be assessed for late payments, so allow adequate time to have the payment debited.
- You must indicate the amount to be withdrawn from the taxpayer's financial institution. The Debit Amount can be more or less than the amount owed; however, if it is less, the taxpayer will be billed for any tax still owed, and if it is after the due date, penalty and interest will be applied. Any amount of \$2 or more paid over the amount due will be refunded.

- It can take the Department up to three days from the date the federal return is transmitted to complete the debit to the specified account. Timeliness is based on the specified Debit Date, not on when the funds settle.
- If the return is transmitted after the due date, the financial institution account will be debited on the next business day following receipt of the return by the Department. Accounts will **not** be debited prior to the requested Debit Date.
- EFWs can be cancelled any time up to two days prior to the Debit Date. To cancel an EFW, the taxpayer, or their authorized Power of Attorney, must call Taxpayer Assistance at 800-742-7474 (NE and IA) 402-471-5729. Proof of identity must be provided before an EFW can be cancelled.
- It is possible that your client's return could have calculation errors that would change a balance due return into a refund return. **If your client receives a refund from the Department due to this, be sure to have them cancel their EFW.**

If you have questions on how the EFW payment option works or problems with your payment, contact the Department's Taxpayer Assistance section at 800-742-7474 (NE and IA), 402-471-5729.

## Credit Card and Payment Voucher Instructions

### Procedures and rules for making tax payments by credit card include:

- Credit cards can be used as a (final) payment option for all income tax filers regardless of the method used to file their return. Paper filers can also use credit cards to pay their liability.
- Payments are currently originated through Official Payments, who provides this same service to the IRS and many other states. **The Department may approve other payment origination vendors subsequent to the release of this publication. See the Department's website for updates.**
- Credit cards supported include VISA, MasterCard, Discover, and American Express. Official Payments will charge a convenience fee of 2.49% (minimum of \$1) of the payment amount. Taxpayers are told of the fee amount when making the transaction, and they have the option of cancelling the transaction. This fee is paid to the credit card vendor and will appear on the taxpayer's credit card statement separately from the tax payment. Only the tax amount goes to the state.
- Payments can be made by credit card over the Internet or via telephone. **Links to all approved credit card vendors are on the Department's website.** If you choose to use Official Payments, go directly to **[www.officialpayments.com](http://www.officialpayments.com)**, or call **1-800-2PAY-TAX** and enter 3700 as the Nebraska Jurisdiction Code.
- The payment will be effective on the date the transaction is completed with the credit card vendor.
- A Confirmation Number is given at the completion of the transaction.
- Payments must be made on or before the due date of **April 17, 2012**, to avoid penalty and interest.

- If your client pays by credit card, later reverses the transaction, and doesn't arrange another method of payment, he/she could be assessed penalty and interest for nonpayment or late payment.
- Any amount paid that is \$2 or more over the amount due will be refunded.
- No credit card information is carried on the return. This transaction is strictly between Official Payments and the taxpayer, or the taxpayer's representative. Any disputes specific to the card payment are strictly between the credit card vendor and the taxpayer.

**Procedures and rules for mailing in tax payments using the Payment Voucher, Form 1040N-V:**

**Taxpayers who e-file may remit their tax liability by check or money order using a Nebraska Payment Voucher, Form 1040N-V.** An ERO who files a balance due electronic return for a client taxpayer **must** provide the taxpayer with the Nebraska Form 1040N-V **unless payment is made by e-pay, EFW, or credit card.** EROs must inform their taxpayer clients of the procedures to follow for payment of Nebraska balance due returns, and that the full amount due must be paid by **April 17, 2012** to avoid penalty and interest. **Form 2210N, Penalty for Underpayment of Estimated Tax, may still apply.** Please consider the following when remitting your client's balance due:

- Attach check or money order to the Nebraska Form 1040N-V, and mail to the Department by **April 17, 2012.**
- Pay the amount due at the time of filing, or any time through **April 17, 2012** without penalty or interest assessment.
- Unpaid tax after **April 17, 2012** will incur penalty and interest, regardless of payment method.
- A Nebraska Balance Due Notice will not be issued until after the due date, unless a payment has been made and is less than the tax amount owed, or the electronic return incorrectly indicates a refund when the Department calculates a balance due.
- Be sure all parts of Form 1040N-V are complete, including names, address, and Social Security numbers.

<p><b>PLEASE REMIND YOUR CLIENTS: Do not use the Form 1040N-V Payment Voucher with paper filed returns. Use Form 1040N-V for remittance of a balance due with e-filed returns only. When mailing Form 1040N-V, do not include a photocopy of the tax return.</b></p>
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## ***Chapter 7***

# **NEBRASKA SIGNATURE POLICY**

Nebraska's signature policy for returns filed through the Federal/State E-file program requires that the federal PIN selected for the taxpayer's federal return be included in the Nebraska electronic record. State-Only tax preparer returns should contain a PIN if one is available. The only exception is when the return is a "true" State-Only or Unlinked return (where no federal return was filed by that software). In these exception cases, the act of e-filing serves as signature. Re-submitted rejected State-Only or Unlinked returns, and returns where the "piggy-back" state return was for another state, should contain the federal PIN in the state record.

Returns filed through the Department's Internet-based NebFile program will require a state-assigned PIN. The taxpayer's state-assigned PIN is provided on postcards mailed to the taxpayer, but can otherwise be found through an online lookup service provided through the NebFile system. If the taxpayer is a first-time filer with the Department, a PIN is assigned to the taxpayer by the NebFile system during the log-in after the filer provides registration information. EROs may consider using the NebFile system to file their clients' state returns.

## **Chapter 8**

# **RESPONSIBILITIES OF PARTICIPANTS**

E-filers (transmitters and EROs) must abide by the terms established in this handbook and must maintain a high degree of integrity, compliance, and accuracy in order to continue to participate in the Nebraska portion of the Federal/State Legacy and MeF programs. They must also abide by all of the following requirements.

### **Compliance, Monitoring, and Suspension**

All electronic filers must comply with the requirements and specifications set forth in *IRS Publications 1345 and 1346*, and in this handbook. All tax information must be kept confidential. The Department may monitor an ERO for conformity with this publication. The Department can immediately suspend, without notice, an ERO from the e-file program. If the IRS suspends an ERO, they are automatically suspended from the Nebraska e-file program as well. Monitoring will include random sampling of Form 8453N signature documents and all associated documentation for compliance.

### **Timeliness of Filing**

Transmitters must ensure that electronic returns are filed in a timely manner. The date of the IRS acknowledgment will be considered the filing date for a Nebraska return transmitted electronically. **transmitters must provide the Nebraska acknowledgment to the ERO in a timely manner.** The state acknowledgment should be received by the ERO before considering the state return received.

### **Filing Deadline**

The Department will accept e-filed Nebraska returns, which have been submitted to the IRS through the IRS extension period. Any returns not re-transmitted and accepted before the IRS system is closed must be filed as paper documents.

### **ERO Responsibility to Clients**

EROs have been entrusted with the task of filing a client's tax return and must assume the responsibility of ensuring that the return arrives at the Department. In the event that the ERO does not receive a Nebraska acknowledgment, the ERO must notify their client to file a paper return.

### **Changing Tax Returns**

If the ERO or taxpayer wishes to make any changes after the return has been acknowledged as accepted by the state, the taxpayer must file an amended return, Nebraska Form 1040XN, through the paper document filing process. **Currently, amended returns cannot be submitted electronically.** Nebraska amended returns must be mailed to the following address:

Nebraska Department of Revenue  
PO Box 98911  
Lincoln, Nebraska 68509-8911

## **Chapter 9**

# **DEPARTMENT CONTACTS**

### **Nebraska Contacts**

#### **ELECTRONIC FILING COORDINATION**

402-471-5619

General Contact  
State Record Layouts & Software Guidelines  
Electronic Return Error Resolution  
Direct Deposit / Electronic Funds Withdrawal Error Resolution  
Software Developer Approval

#### **NEBRASKA TAXPAYER ASSISTANCE HELP LINE**

If calling from Nebraska or Iowa  
If calling from outside of Nebraska or Iowa

800-742-7474  
402-471-5729

Tax Preparation Assistance and Status of Refunds

#### **NEBRASKA DEPARTMENT OF REVENUE WEBSITE**

[www.revenue.ne.gov](http://www.revenue.ne.gov)

### **Using the Department's Website**

Please note that the Department has designed its website to provide additional information to individual taxpayers, software developers, and tax preparers. EROs or software developers should take advantage of the opportunity to find useful information about the Department in general and about the Nebraska e-file program specifically.

If you are an ERO, go to the Department's [website](#), and click on "Tax Preparers" to find information about the e-file program, and to download or read useful forms, files, and publications. Also, from the Department's website, software developers can click on "Software Developers" to download necessary files and publications, including Forms 8453N, 1040N-V, Publication 1346N (Nebraska file specifications), Nebraska Reject Code Listing, and Nebraska MeF Business Rules.



Information on the Department's website may change periodically. Sign up for a [FREE subscription service](#) to get updates on your topics of interest.

## Chapter 10

# IMPORTANT MeF CONCEPTS AND E-FILE TERMS

**Acceptance or Assurance Testing (ATS):** A testing process for Software Developers and transmitters that participate in IRS and Federal/State MeF e-file programs. This testing establishes that MeF software products and transmission capabilities comply with the IRS and state requirements prior to live processing.

**Acknowledgment (ACK):** A computer record generated by the IRS and states to a transmitter that indicates receipt of all transmissions. An ACK Report identifies the returns in each transmission that are accepted or rejected for specific reasons.

**Authorized IRS e-file Provider (Provider):** This is an IRS defined term for a firm accepted to participate in IRS e-file.

**Automated Clearing House (ACH):** A system that administers electronic funds transfers (EFTs) among participating financial institutions, such as direct deposit or electronic funds withdrawal.

**Declaration Control Number (DCN):** Used only in the Legacy e-file system, this is a unique 14-digit number assigned by the ERO (or transmitter, in the case of online filing), to each e-filed tax return.

**Depositor Account Number (DAN):** The financial institution account to which a direct deposit refund is to be routed.

**Direct Deposit:** An electronic transfer of a state or federal refund into a taxpayer's financial institution account.

**Drain:** This is an IRS Legacy e-file term meaning a scheduled time for the IRS to process e-filed return data.

**Electronic Federal Tax Payment System (EFTPS):** A service from the U.S. Treasury through which federal taxes may be paid. The taxpayer can pay taxes via the Internet, by phone, or through a service provider. After authorization, EFTPS electronically transfers payments from the authorized bank account to the Treasury's general account. **The Nebraska equivalent of EFTPS is the e-pay system.**

**Electronic Filing Identification Number (EFIN):** An identification number assigned by the IRS to accepted applicants for participation in IRS e-file.

**Electronic Funds Transfer (EFT):** The process through which the U.S. Treasury transmits direct deposit refunds from the government to the taxpayer's account at a financial institution.

**Electronic Funds Withdrawal (EFW):** A payment method which allows the taxpayer to authorize the U.S. Treasury to electronically withdraw funds from their checking or savings account.

**Electronic Postmark:** The electronic postmark is the date and time the transmitter first receives the electronic return on its host computer in the transmitter's time zone. The taxpayer adjusts the time to their time zone to determine timeliness.

**Electronic Signature:** A method of signing a return electronically through use of a Personal Identification Number (PIN).

**Electronic Return Originator (ERO):** The IRS definition says “originate” is an *e-file* application definition that means this entity checks the return for appropriate format and may include inputting the taxpayer’s return information into approved tax preparation software. The term “originate” does not mean that the entity prepares the return. An ERO “originates” the electronic submission of returns collected from taxpayers wishing to have their returns *e-filed*.

- An ERO may pass on return information to an Intermediate Service Provider or to a transmitter for the purpose of having an electronic return correctly formatted or transmitted to the IRS and state.
- An ERO who collects return information from a taxpayer becomes the paid tax preparer of the return when substantive changes are made as a result of entering the data into the tax software (when the ERO discovers errors that require substantive changes and then makes those changes). The IRS defines a non-substantive change as a correction limited to a transposition error, misplaced entry, spelling error, or arithmetic correction. All other changes are considered substantive and in these cases, the ERO becomes the paid tax preparer, so they may be required to sign the tax return as the paid tax preparer.

**Electronic Transmitter Identification Number (ETIN):** An identification number assigned by the IRS to an entity that does transmission and/or software development for e-filed returns.

**Individual Taxpayer Identification Number (ITIN):** An IRS-assigned tax processing number for certain nonresident and resident aliens, their spouses, and their dependents. The ITIN is only available from the IRS for those individuals who cannot obtain a Social Security number (SSN).

**Intermediate Service Provider (ISP):** An authorized IRS e-file participant that receives electronic tax return information from an ERO, or a taxpayer who filed using a personal computer and commercial tax preparation software, that processes this electronic tax return information and either forwards the information to a transmitter or sends the information back to the ERO or taxpayer.

**Internet Protocol (IP) Information:** The IP address, date, time, and time zone of the origination of a tax return filed through online filing via the Internet. The IRS and the Department both require software developers that provide online filing via the Internet to capture the IP information. This provides the location of the return’s originator with the individual’s electronic return.

**Legacy E-File:** The existing Federal/State e-file program offered by the IRS and participating states since 1991. This program is scheduled to end in 2013, when all IRS e-file programs will use the MeF system to receive and process e-filed returns.

**Linked and Unlinked State Returns:** A state return can be linked to an IRS return by including the Submission ID of the federal return in the state return manifest.

1. If the state return is linked to an IRS submission (also referred to as a Fed/State return), the IRS will check to see if there is an accepted IRS return under that Submission ID.
  - a. If there is not an accepted federal return under that Submission ID, the IRS will deny the state submission and an acknowledgement will be sent to the transmitter. The state has no knowledge that the state return was denied (rejected) by the IRS. **Note: If you link a state submission to an IRS submission, send in the IRS submission first and, after it has been accepted, send in the state submission.**
  - b. If there is an accepted federal return under that Submission ID, then MeF will do minimal validation on the state return. MeF will then pass along to the state what the ERO (or taxpayer) sends in the state submission.
2. If the ERO does not link the state return to a previously accepted federal return (also referred to as State Standalone return), then MeF will perform minimal validation as stated above that will

include verifying that the state allows State Standalone returns and then will pass along to the state the entire State submission that was sent in by the ERO/taxpayer.

**Modernized e-File (MeF):** In 2001, the IRS embarked on an e-file project for Forms 1120/1120S, and that project is now known as MeF. MeF utilizes a new architecture for processing returns and will accept and validate tax returns in Extensible Markup Language (XML) format. Eventually, all IRS e-file programs will use the MeF system to receive and process e-filed returns.

**Participant Acceptance Testing (PATs):** Required testing for all Software Developers that participate in IRS and state Legacy e-file. This testing establishes that Legacy software products and transmission capabilities comply with the IRS and state requirements prior to live processing.

**Perfection Period:** Both the IRS and the Department support a 20-day perfection period. For Nebraska, when a transmitted electronic return is rejected, there is a 20-day transmission perfection period to perfect that return for electronic re-transmission and still have it postmarked as the date it was originally received by the Department. Perfection of the return for electronic re-transmission generally means that the original return may have errors that cause the return to fail the Department's schema validation or business rules. Rules for this process include:

- The 10-day Nebraska perfection period goes into effect once the Department receives a Nebraska return that is rejected by the Department. The Nebraska perfection period is not a part of the IRS perfection period.
- When a previously rejected Nebraska electronic return is Accepted by the Department within the 10-day transmission perfection period, the Department uses the received date on the earliest reject as the received date for the Accepted return.
- If the taxpayer chooses not to have the electronic portion of the return corrected and retransmitted; sufficient time does not exist to retransmit the Nebraska return before the close of the Federal/State e-file system; or if the electronic portion of the return cannot be accepted for processing by the Department, the taxpayer must file a paper return. To be considered timely filed, the paper return must be postmarked by the later of the due date of the return (including extensions) or 10 calendar days after the date the Department gives notification (by way of a Nebraska acknowledgment) that the return is rejected.

**Practitioner PIN Method:** This is an electronic signature option for federal taxpayers who use an ERO to e-file. The Practitioner PIN method allows taxpayers to authorize the ERO to enter or generate their PIN. It is not necessary for taxpayers to provide their date of birth, prior year adjusted gross income, or prior year PIN for authentication when using the Practitioner PIN method. Taxpayers must complete Form 8879, IRS e-file Signature Authorization, for returns using the Practitioner PIN method. Taxpayers can either enter their own PIN or authorize the ERO to enter their PIN for them when completing Form 8879. Nebraska accepts all types of Federal PINs for state signature.

**Preparer's Tax Identification Number (PTIN):** An IRS-assigned identification number issued, which paid tax return preparers can use in place of their SSN on returns that they prepare.

**Refund Anticipation Loan (RAL):** A refund anticipation loan is money borrowed by a taxpayer that a lender bases on a taxpayer's anticipated income tax refund. Neither the IRS nor the state has any involvement in RALs. A RAL is a contract between the taxpayer and the lender.

**Refund Cycle:** The date that the IRS or a state estimates it would issue a refund by direct deposit. In the Legacy e-file system, the IRS bases its refund cycle on a specific "drain," which results in all deposits being made on a Friday. The Department's refund cycle is based on a processing cycle of three times per week and results in deposits being made at various times of the week. Neither the federal government nor states can guarantee the specific date that a refund deposit is settled into a taxpayer's financial institution account.

**Schema:** A schema is a model for describing the structure of information. It is a term borrowed from the database world to describe the structure of data in relational tables. In the context of XML, a schema

describes a model for a whole class of documents. The model describes the possible arrangement of tags and text in a valid document. The purpose of a schema is to allow machine validation of document structure. Every specific, individual document which does not violate any of the constraints of the model is, by definition, valid according to that schema.

**Self-Select PIN Method:** An electronic signature option for taxpayers who e-file their federal return using either a personal computer or an ERO. This method requires taxpayers to create a five-digit PIN to use as the signature on the e-file return and to submit authentication information to the IRS with the e-file return. The PIN is any five numbers (except all zeros) that taxpayers choose to enter as their electronic signature. If it is a married, filing jointly return, **each** taxpayer needs a PIN and each may choose any five numbers. As part of the authentication process, **each** taxpayer also enters his/her date of birth, and either his/her original prior year adjusted gross income or his/her prior year PIN. Nebraska accepts all types of Federal PINs for state signature.

**Software Developer:** An IRS and state approved entity that develops computer software for the purpose of formatting the electronic returns according to federal and state requirements.

**Strong Authentication:** To ensure greater security in MeF, passwords cannot be used when communicating with the IRS. Strong authentication refers to a new method for confirming authority to use MeF application-to-application (A2A) Web services. The IRS has installed certificate-based authentication technology. The new authentication system will affect authentication for all A2A Web services, including communication with states. Other than providing greater security, this process does not normally affect EROs.

**Web Service:** This is a computer-programmed tool or capability that can be accessed through the Internet rather than being run locally on a desktop.

## **NEBRASKA E-FILER CHECK LIST – DID YOU REMEMBER TO DO THE FOLLOWING?**

- ☐ Double check to see if forms needed and lines used are eligible for electronic filing. If not, prepare a Form 8453N, attach required forms, and mail to the Department.
- ☐ Make sure names, addresses, and Social Security numbers are correct.
- ☐ Verify that SSNs, High School District Code, names, and addresses are correctly entered.
- ☐ Retain all state copies of federal and state forms, withholding, and other documents for a period of three years unless otherwise instructed to mail in to the Department.
- ☐ Verify the accuracy of Routing Transit Number and Account Number for direct deposit and electronic funds withdrawal returns.
- ☐ Verify that your EFIN, PTIN, EIN, name (or ERO company name), and telephone number have been completely and accurately entered.
- ☐ Use only whole dollar amounts in the electronic return.
- ☐ Give taxpayers the copies of all forms that apply to them.
- ☐ Verify receipt and results of the IRS acknowledgment.
- ☐ Verify receipt and results of the Nebraska acknowledgment.